

**U.S. POSTAL SERVICE  
OFFICE OF INSPECTOR GENERAL**



**OFFICE OF AUDIT  
FY 2011 AUDIT PLAN**

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## BACKGROUND

U.S. Postal Service Office of Inspector General (OIG) audits and reviews are designed to protect assets and revenue, ensure efficient and economical mail delivery, and safeguard the integrity of the postal system. The results of our work are presented in published reports and *Semiannual Reports to Congress*. We also provide advice throughout the year to the Board of Governors (Board), particularly the Audit and Finance Committee, and we attend key Postal Service committee meetings as non-voting members, such as the Capital Investments Committee. Our audits and reviews are performed in compliance with the standards published by the Comptroller General of the United States, the American Institute of Certified Public Accountants, and the President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency, now known as the Council of the Inspectors General on Integrity and Efficiency.

This fiscal year (FY) 2011 audit plan focuses on those projects that provide Postal Service management with information to address the emerging strategic issues and major risks and management challenges they are facing. In October 2008, the Postal Service published its *Vision 2013: Five-Year Strategic Plan for 2009-2013* which articulated three goals: focusing on what matters most to customers, leveraging the Postal Service's strengths, and embracing change. We ensure that our audit work addresses these strategic issues.

Additionally, we refined our overarching risk assessment process and prioritized audit projects that address risk factors in strategic, financial, and operational areas. The Deputy Assistant Inspectors General for Audit (DAIGA) advise the Assistant Inspector General for Audit (AIGA) on the major risks facing the Postal Service in their program area and propose audits based on these risks and stakeholder concerns, as well as follow-up reviews on previously audited areas with significant control weaknesses. The AIGA, DAIGAs, and directors also maintain professional relationships and outreach with Postal Service executives and other stakeholders to ensure open communication and full coverage of issues and challenges facing the Postal Service.

In addition, we continue to enhance our Performance and Results Information Systems (PARIS) models with data visualization techniques. These models identify operational and financial risks, and enable Office of Audit (OA) staff to conduct reviews of Postal Service functions on a nationwide basis, while also identifying areas of emerging risk — fundamentally changing the way the OIG examines and monitors risk. In the short time using PARIS models, OA has completed significant risk-based work, resulting in billions of dollars of overall savings to the Postal Service. OA shares PARIS model results and underlying data with the Office of Investigations, the Board, Postal Service officials, and other key stakeholders. Postal Service management uses PARIS information to help address risks within their districts. OA is working to make the results and data more readily available to all stakeholders.

To further enhance our ability to provide value in FY 2011, OA will continue initiatives such as:

- Developing major reports addressing Postal Service risks.
- Imagining solutions to difficult challenges facing the Postal Service.
- Using social media tools such as blogs, discussion forums, and project web pages to gather ideas and solutions from Postal Service stakeholders.

## **MISSION AND ORGANIZATION**

### **Mission**

Conduct and supervise objective and independent audits and reviews of Postal Service programs and operations to:

- Prevent and detect fraud, waste, and misconduct.
- Promote economy, efficiency, and effectiveness.
- Promote program integrity.
- Keep the Board, Congress, and Postal Service management informed of problems, deficiencies, and corresponding corrective actions.

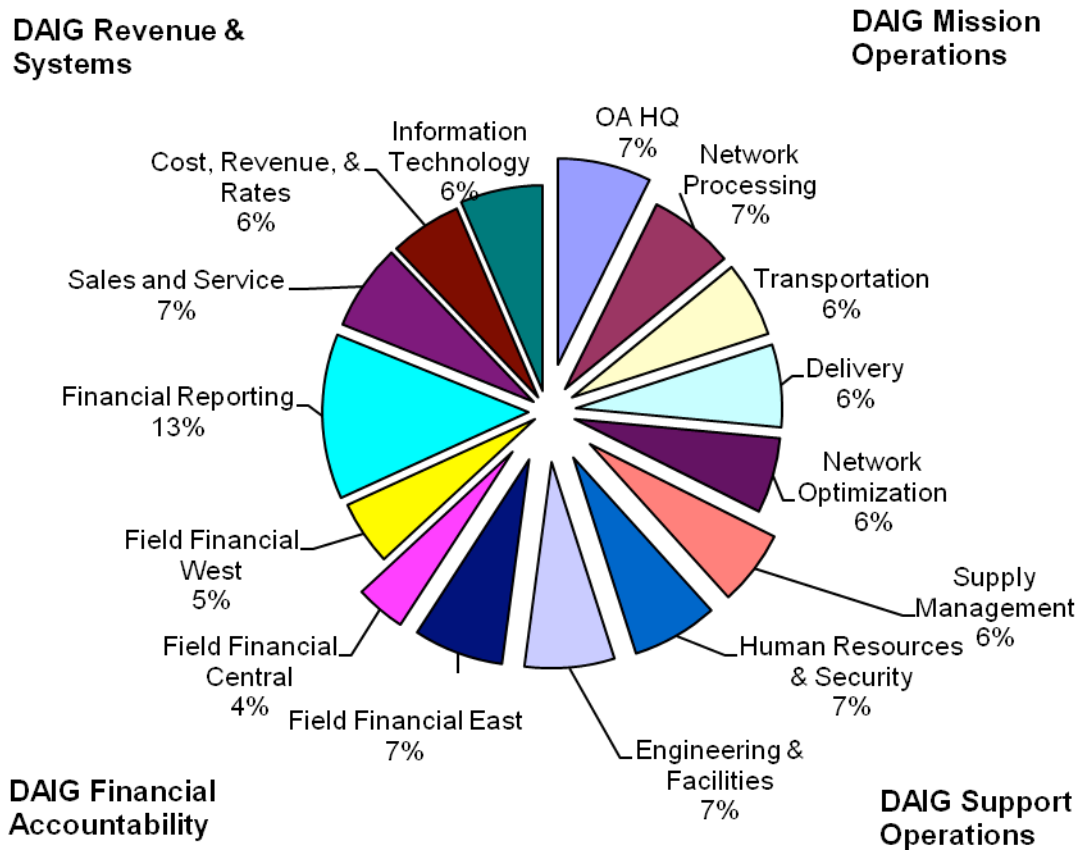
### **Organization**

Under the leadership of the Inspector General, the AIGA is responsible for OA. Four DAIGAs report to the AIGA and oversee audit programs focused on Mission Operations, Support Operations, Financial Accountability, and Revenue and Systems. Generally, our audit resources are aligned with those of the Postal Service vice presidents and major functional areas, allowing us to focus our efforts where there is the greatest potential risk to Postal Service management and operations.

## ALLOCATION OF RESOURCES BY AUDIT DIRECTORATE

OA has four major programs composed of 14 directorates and a headquarters staff that includes Planning and Strategic Studies and Audit Operations. Percentages of our FY 2011 resources dedicated to these Postal Service functions are shown in the following chart:

FY 2011 Allocation of OA Resources by Audit Area



## **RISK-BASED PLANNING PROCESS**

Based on a formal risk assessment of the Postal Service, OA uses a risk-based planning process to identify audit opportunities. This approach helps us direct resources toward top priorities and critical areas for attention, based on the potential for adverse effects on the Postal Service. To that end, we group Postal Service issues and challenges into three overarching risk categories—Strategic, Financial, and Operational. We then articulate specific risk factors that confront the Postal Service within each category.

OA executives conduct the top-down strategic aspect of the process after obtaining pertinent information from Postal Service officials and OIG management. Once the risk categories and risk factors are identified and aligned, OA executives assess each factor by determining the likelihood it will occur and the impact on the Postal Service if it does occur. Each risk factor is rated Low, Medium, or High, and the ratings are captured in risk matrices for each category.

OA directors and team members conduct the bottom-up tactical aspect of the process by identifying and prioritizing audit work based on the highest risk factors impacting their program area. They also coordinate their planning efforts to address cross-functional issues, where applicable. Further, where necessary, OA redeploys resources or reassigns work from one directorate to another to ensure it addresses the highest risk areas.

Using our risk-based planning process and risk deployment approach allows us to identify the most important bodies of work that need to be performed, and then position ourselves to do that work. This more agile approach enhances our value to the Postal Service.

The FY 2011 Audit Plan communicates our audit priorities to the Postal Service, the Board, Congress, and other interested parties. Our plan also includes mandatory audits that are required by statute. If significant and unexpected events occur during the year, OA will adjust the plan accordingly.

## SELECT WORK BY RISK AREA

### Strategic Risk

The Strategic Risk category includes big picture, long range issues that affect the Postal Service's overarching strategic direction. Strategic risk factors are those that may impede the Postal Service's ability to be effective and efficient or ensure that its products and services are self-sustaining and balance legal considerations and stakeholder views.

Some examples of big picture, long-range issues in the Strategic Risk category include:

- Network streamlining.
- Strategic automation efforts.
- Revenue protection and generation.

#### **Select Work Performed Under Strategic Risk in FY 2010**

Audits and reviews we performed during FY 2010 included:

- ***Postal Service Area and District Office Field Structure***: We evaluated the effectiveness of recent U.S. Postal Service area and district office consolidations and determined whether opportunities exist to consolidate further.
- ***The Postal Service's Network Rationalization Initiatives***: We evaluated the Postal Service's progress in streamlining the network since FY 2005 and identified key challenges in the planning, development, and implementation process.
- ***Flats Sequencing System—Program Status and Projected Cash Flow***: We assessed procedures for reporting Flats Sequencing System program performance and program savings shortfalls.
- ***Revenue Generation Strategic Report***: We suggested strategic revenue generation opportunities for the Postal Service.

#### **Examples of Planned Work Under Strategic Risk in FY 2011**

During FY 2011, we anticipate conducting work related to:

- ***Innovation Process***: We will benchmark the Postal Service's innovation process to selected major corporations in the Fortune 100 in order to determine innovation best practices.
- ***Market Intelligence***: We plan to determine whether the Postal Service uses best practices to gather market intelligence to make informed business decisions.

- **Volume-Based Negotiated Service Agreements:** We plan to assess the results of volume-based national service agreements.
- **Network Streamlining—Processing and Retail:** We plan to assess opportunities to improve the closure process and identify opportunities for consolidations.
- **Flats Sequencing System:** We will assess the post-test program status and evaluate how system shortcomings are addressed. We will also evaluate the effects of the Flats Sequencing System on delivery operations and operation costs at selected delivery units.
- **Intelligent Mail--Mailer Participation and Revenue Assurance Benefits:** We will identify barriers to mailer participation in the full service Intelligent Mail program and evaluate plans for this system to ensure the accuracy of mailer postage statements.
- **Enterprise Architecture:** We plan to determine whether the Enterprise Architecture is sufficiently leveraged to optimize current and planned business processes, and supports strategic goals and objectives.
- **Voting by Mail:** We will gain an understanding of internet and mail voting and identify the potential risks, benefits, and opportunities to the Postal Service.
- **New Approaches to Reduce Costs:** We will evaluate Postal Service opportunities to increase efficiency and reduce costs associated with investigative activities, armed security forces, postage stamp management and employee benefits.
- **Area Mail Processing Consolidations Model:** We will determine whether consolidations are equitable and assess opportunities for additional consolidations in the processing and distribution center network.
- **Annual Compliance Reporting—Accuracy of Ratemaking Data:** We will evaluate controls over processes the Postal Service uses to develop the Annual Compliance Report.

## Financial Risk

The Financial Risk category pertains to the critical financial risk the Postal Service faces as it, like other companies, deals with the economic slowdown affecting the nation. Factors exacerbating financial risk include the crisis in the financial industry, increases in energy costs, significant declines in mail volumes, and mandated annual payments to pre-fund retiree health benefits. The anticipation of further declines in volume means the Postal Service still faces major challenges to cut costs and increase revenues.



Examples in the Financial Risk category include issues with a clear financial impact, such as:

- Labor costs and volume reductions.
- Financial statement audits.
- Sarbanes-Oxley Act implementation.
- Pricing.

### **Select Work Performed Under Financial Risk in FY 2010**

Work we performed during FY 2010 included:

- ***Impact of Postal Accountability and Enhancement Act Price Caps:*** We evaluated the impact of the Postal Act of 2006's mandated price caps on Postal Service rates.
- ***Summary of Substantial Overfunding in Postal Service Pension and Retiree Health Care Funds:*** We summarized the results of four OIG reports identifying overfunding issues in employees' and retirees' benefit funds.
- ***Mandatory Financial Statement & Sarbanes-Oxley Work:*** We assisted the Postal Service in meeting its various legislative mandates by performing work such as audits related to the public accountant's opinion on the Postal Service financial statements and internal controls over financial reporting (Sarbanes-Oxley (SOX)) and compliance with financial reporting requirements similar to those required by the Securities and Exchange Commission (SEC).

### **Examples of Planned Work Under Financial Risk in FY 2011**

In FY 2011, we plan to conduct work that addresses:

- ***Department of Labor and the US Postal Service—Workers' Compensation Program:*** We plan to review the requirements for the Postal Service to participate in the Federal Employee Workers' Compensation Program, problems existing in the program, and the impacts to the Postal Service of the current arrangement. We also plan to benchmark with other companies to determine how their costs compare with the Postal Service and to identify best practices for reducing workers' compensation cost.
- ***Operational Census Data vs. Statistical Data for Cost & Revenue Reporting:*** We plan to evaluate whether there are cost-effective alternatives to the current Cost Revenue Analysis data collection procedures.
- ***Financial Fraud Vulnerability – Internal and External:*** We have several audits planned in this area—we plan to look at no-fee money orders, imprudent purchases, bad check prevention and collection, click-n-ship postage, Automated Postal Center Postage and stamp accountability.

- **Pricing Simplification:** We plan to evaluate the adequacy and agility of the Postal Service's management of cost coverage and revenue leakage prevention for existing prices and when new prices are introduced.
- **Mandatory Financial Statement & Sarbanes-Oxley Work:** We will continue to assist the Postal Service in meeting its various legislative mandates by performing work such as audits related to the public accountant's opinion on the Postal Service financial statements and internal controls over financial reporting (SOX) and compliance with financial reporting requirements similar to those required by the SEC.
- **Audits of Cost and Pricing Data Systems and Processes:** We will assess the controls over the processes the Postal Service uses to develop the Annual Compliance Report, and determine whether inputs into the report are reliable.
- **Substantial Savings Available by Prefunding Pension & Retiree Health Care at Benchmarked Levels:** We will benchmark Postal Service prefunding pension and retiree health care fund requirements against other large companies and the federal government.

## Operational Risk

The Operational Risk category focuses on issues related to daily postal operations. These risk factors potentially affect the Postal Service's ability to provide timely, reliable delivery and customer service across all access points. Operational risk factors pertain to the quality of postal services and the end-to-end service performance of all mail as well as the assurance that postal products and services meet customer expectations by being responsive, consistent, and easy to use.

Issues in the Operational Risk category are those related to daily postal operations, such as:

- Costs in work systems and processes.
- Contracting controls.
- Security of the mail.
- Use of real estate/space.

## **Select Work Performed Under Operational Risk in FY 2010**

Work we performed in FY 2010 included:

- ***Assessment of Overall Efficiency 2010:*** We assessed the overall efficiency of the processing and distribution network for FY 2009.
- ***U.S. Postal Service Purchasing Policies:*** We (1) assessed the Postal Service's procurement policies for awarding noncompetitive contracts and dealing with conflicts of interest, (2) determined how Postal Service policies compared to federal regulations and private industry best practices, and (3) assessed the Postal Service's compliance with its existing noncompetitive contract policies and procedures.
- ***Function 4 Overtime Hours:*** We determined whether Postal Service officials effectively managed Function 4 workhours to reduce overtime costs.

## **Examples of Planned Work Under Operational Risk in FY 2011**

Work we plan to do in FY 2011 includes:

- ***Plant Production Efficiency:*** We plan to assess the overall efficiency of the processing and distribution network for FY 2010.
- ***First-Class Mail on Air Transportation:*** We plan to determine whether opportunities exist to improve density of First Class mail on air transportation and reduce overall transportation costs.
- ***City Delivery Efficiency – National Capping:*** We will summarize the results of our audits that assessed overall efficiency of city delivery operations and identified opportunities to reduce operating costs.
- ***Contract Management Data:*** We will assess Postal Service entity-wide contract management data availability and validity.
- ***State of Security:*** We will assess the state of security in the Postal Service by evaluating Postal Service security controls and processes.
- ***OSHA Compliance:*** We plan to assess the Postal Service's processes to ensure compliance with Occupational Safety and Health Administration regulations.
- ***Benchmarking with Other Delivery Companies:*** We plan to identify opportunities for improving mail distribution to carriers by benchmarking with the commercial mailing industry.
- ***Nationwide Facility Excess:*** We will identify nationwide opportunities for the Postal Service to optimize excess space.

## **APPENDIX: MANAGEMENT CHALLENGES FACING THE POSTAL SERVICE**

We address the following management challenges facing the Postal Service:

- **Strategic Direction and Infrastructure Challenges** – The Postal Service must address its critical financial challenge while 1) increasing its effectiveness and efficiency; 2) ensuring that products and services are self-sustaining; and 3) balancing legal considerations and stakeholder views.
- **Labor and Management** – The Postal Service must ensure its compensation and benefit costs are effectively aligned in anticipation of further reductions in revenue. The Postal Service must analyze labor dispute settlements to assess whether there are recurring scenarios that could be avoided.
- **Cost Control and Reduction of Energy Consumption** – The Postal Service must control costs and reduce energy use to maintain universal service. The Postal Service must compare contract analysis assumptions with actual performance to determine whether it should continue to outsource products and services or perform them internally.
- **Revenue, Brand Protection, and Growth** – The Postal Service must manage its pricing of products and services to ensure maximum revenue and provide greater value to its customers.
- **Customer Service** – The Postal Service must balance its public service obligation with the need to remain commercially viable.
- **Preserving Integrity and Security** – The Postal Service must provide a secure infrastructure for the nation's mail system – despite threats of terrorism or natural disaster – to safeguard its resources (employees, facilities, and applications) and protect and maintain the integrity of its proprietary and customer data.
- **Technology Improvements and Information Transparency** – The Postal Service must optimize its use of technology and provide information that better meets the needs of its managers and stakeholders.
- **Public Outreach** – The Postal Service must educate stakeholders and the public about the financial challenges it faces and the fact that it is funded by ratepayers not tax dollars.
- **Regulatory Challenges** – The Postal Service must comply with legal and regulatory mandates.